Auditor's report of the Auditor-General to the Gauteng Provincial Legislature on the Westonaria Local Municipality for the year ended 30 June 2012

AUDITOR-GENERAL
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Auditing to build public confidence

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The reputation promise of the Auditor-General

"The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence."

The mission statement informs the content of the Public Audit Manual (PAM) by recognising that the audits conducted by the SAI of South Africa are unique due to its mandate. This mandate includes responsibilities in terms of laws or regulations that go beyond generally accepted practice of the auditor's responsibilities in the audit of the financial statements.

These responsibilities include: consideration of issues such as public interest; accountability; probity; effective legislative oversight, in particular as concerns compliance with law, regulation or other authority; performance against pre-determined objectives; and economic, efficient, and effective procurement of resources.

The ultimate goal of the audits is to strengthen the South African democracy.

AUDITOR-GENERAL
SOUTH AFRICA

Mr. T Ndlovu
Accounting Officer
Westonaria Local Municipality
P.O.Box 19
Westonaria
1780

Date 30 November 2012

Reference: TS 9819611

Dear Mr Ndlovu

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Westonaria Local Municipality for the year ended 30 June 2012

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) you are required to include the audit report in the Westonaria Local Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
    - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
    - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

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the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Dumisani Cebekhulu
Senior Manager: Gauteng

Enquiries: Nokukhanya Vilakazi
Telephone: (011) 703 7814
Fax: (011) 703 7690

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE WESTONARIA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Westonaria Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) , and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Cash and Cash equivalents

6. The municipality could not provide sufficient appropriate audit evidence to support reconciling items totalling R11 050 525 between the overdrawn cash and cash equivalents balance stated in the cash book at R34 060 315 and the cash at banks amount stated in the general ledger at R5 278 314. Furthermore, the cash and cash equivalents balance stated in the cash book does not agree to the amount confirmed by the financial institutions. The entity's records did not permit the application of alternative audit procedures regarding cash and cash equivalents. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and allocation of and rights pertaining to cash and cash equivalents.

Property, plant and Equipment

7. The municipality did not account for the property, plant and equipment as disclosed in note 9 to the financial statements in accordance with the measurement criteria of SA Standards of GRAP, GRAP17, Property, plant and equipment. The property, plant and equipment were not reviewed for classification, changes in useful lives, residual values, impairment, and depreciation. The municipality's records did not permit the application of alternative audit procedures regarding property, plant and equipment. Consequently, I was unable to obtain explanations and sufficient audit evidence I considered necessary to satisfy myself as to the classification and valuation of property, plant and equipment.

8. The municipality did not provide sufficient appropriate audit evidence for an amount of R120 588 883 (2011:R85 598 220) that was disclosed as work in progress. I was unable to confirm the classification, completeness and valuation of the balance by performing alternative audit procedures. Consequently, I was unable to obtain explanations and sufficient audit evidence I considered necessary to satisfy myself as to the classification completeness and valuation of property, plant and equipment.

Investment Property

9. Included in investment property of R66 524 904 (2011: R71 763 651) as disclosed in note 10 is an amount of R10 868 439 that the municipality could not provide sufficient audit evidence to confirm ownership. I was unable to confirm ownership of the investment property by performing alternative audit procedures. Consequently, I was unable to obtain explanations and sufficient audit evidence I considered necessary to satisfy myself as to the rights pertaining to investment property.

10. The municipality did not provide sufficient appropriate audit evidence for investment properties that were reflected at R23 231 500 in the municipality valuation roll and not included in the asset register. I was unable to confirm the completeness and valuation of the investment property balance by performing alternative audit procedures. Consequently, I was unable to obtain explanations and sufficient audit evidence I considered necessary to satisfy myself as to the classification, completeness and valuation of investment property.

Qualified opinion

11. In my opinion, except for the effect of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Westonaria Local Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Going concern

13. As disclosed in note 38 to the financial statements, the Westonaria Local Municipality has prepared financial statements on a going concern basis however there are a number of indicators that its financial sustainability is under threat.

Restatement of corresponding figures

14. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an errors discovered during 30 June 2012 in the financial statements of the Westonaria Local Municipality at, and for the year ended, 30 June 2011.

Fruitless and wasteful expenditure

15. As disclosed in note 40 the municipal incurred fruitless and wasteful expenditure of R2 387 502 due to interest and penalties arising from late payment of supplier invoices.

Material losses

16. As disclosed in note 29 to the financial statements, material losses to the amount of R14 683 860 (2011: R16 572 595) representing 25 647 036 kilowatts (2011: 37 676 395) were incurred as a result of electricity losses. The total non technical losses of electricity incurred amounted to R5 438 466 (2011: R6 137 997) representing 2 564 703 kilowatts (2011: 3 767 638).

17. As disclosed in note 29 to the financial statements, material losses to the amount of R10 935 703 (2011: R15 400 284) representing 2 043 127 kilolitres (2011: 2 108 453) were incurred as a result of water losses.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

18. The supplementary information set out on pages x to x do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

19. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

21. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National *Treasury Framework for managing programme performance information (FMMPI).*

    The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

22. The material findings are as follows:

Usefulness of Information

Presentation

23. Improvement measures in the annual performance report for a total of 100% of the selected targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

24. The Municipal Systems Act, section 41(c)) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the selected reported indicators and targets are not consistent with the indicators and targets as per the approved integrated development plan.

Measurability

Performance targets not specific

25. The National *Treasury Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets relevant to the following programmes were not specific in clearly identifying the nature and the required level of performance.
    - To promote integrated sustainable development
    - To ensure the provision of basic services to communities
    - To promote local economic and social development
    - To provide safe and healthy environment

    This was due to the fact that management was not aware of the requirements of the *FMPPI.*

Performance targets not measurable

26. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets relevant to:
    - To promote integrated sustainable development
    - To ensure the provision of basic services to communities
    - To promote local economic and social development
    - To provide safe and healthy environment

    This was due to the fact that management was not aware of the requirements of the *FMPPI.*

Performance indicators not well defined

27. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the selected indicators relevant to the following programs were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
    - To promote integrated sustainable development
    - To ensure the provision of basic services to communities
    - To promote local economic and social development
    - To provide safe and healthy environment

    This was due to the fact that management was not aware of the requirements of the *FMPPI.*

Indicators not verifiable

28. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the selected indicators relevant to the following programmes were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
    - To promote integrated sustainable development
    - To ensure the provision of basic services to communities

- To promote local economic and social development
- To provide safe and healthy environment

This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information

Reliability of information

Reported indicators not supported by sufficient appropriate evidence

29. I was unable to obtain sufficient, appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to a lack of:
    - Capacity within the performance monitoring section, not allowing for detailed review and monitoring of quarterly reported information.
    - Understanding the importance of collecting and keeping supporting information.

Compliance with laws and regulations

Annual financial statements, performance and annual reports

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of cash flow, property plant and equipment, provisions, trade payables, revenue, expenditure and other disclosure items identified by the auditors were subsequently corrected.

Strategic planning and performance management

31. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the Municipal Systems Act (MSA).

32. The revised annual budget of the municipality is not based on the development priorities and objectives as well as the performance targets set by the municipality in its IDP as required by regulation 6 of the Municipal Planning and Performance Management Regulations, 2001.

33. The performance report for the financial year under review was not prepared as required by section 46 of the MSA read with section 121(3) (c) of the MFMA.

Internal Audit

34. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1) (c).

Expenditure management

35. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

36. The accounting officer did not take effective steps to prevent fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

Procurement and contract management

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).

38. Awards were made to providers who are persons in service of other state institutions or whose directors are persons in service of other state institutions, in contravention of the requirements of supply chain management (SCM) regulation 44. Furthermore, some service providers failed to declare that they are in the service of the state, as required by SCM regulation 13(c).

INTERNAL CONTROL

39. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- There was no effective exercise of oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
- The accounting officer did not adequately exercise sufficient oversight over the financial statements and predetermined objectives by ensuring the findings raised in the prior year were fully resolved in the current year.
- There was inadequate monitoring of progress of implementation of action plans to address internal control deficiencies.

Financial and performance management

- There was inadequate implementation of proper record keeping controls, in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- There was inadequate review and monitoring of compliance with applicable laws and regulations.

Other reports

Investigations in progress

40. An investigation is being conducted to probe the manner in which some municipality assets were misappropriated. The investigation was still ongoing at the reporting date.

Auditor General

Johannesburg

30 November 2012

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